

ANALYSIS OF ORIGINAL BILL

Franchise Tax Board

Author: Parra Analyst: Jennifer Bettencourt Bill Number: AB 831
Related Bills: See Legislative History Telephone: 845-5163 Introduced Date: February 22, 2007
Attorney: Patrick Kusiak Sponsor: _____

SUBJECT: Tax Expenditures Report/Legislature Review All Tax Expenditures & Repeal Those That Do Not Advance Or Serve Public Purpose

SUMMARY

This bill would require the Legislature to review existing tax expenditures every ten years and repeal those that fail to advance or serve a public purpose or policy.

PURPOSE OF THE BILL

According to the author's office, the purpose of this bill is to establish a system to evaluate the effectiveness of tax expenditures.

EFFECTIVE/OPERATIVE DATE

This bill would become effective and operative on January 1, 2008.

POSITION

Pending.

ANALYSIS

STATE LAW

State law requires the Department of Finance (DOF) to provide an annual report to the Legislature on tax expenditures containing details on individual categories of expenditures and historical information on the enactment and repeal of the expenditures.

State law requires all state agencies to submit to the Governor a complete plan and itemized statement of all proposed expenditures and estimated revenues for the ensuing fiscal year.

The Governor is required to submit a budget within the first 10 days of the regular session of the Legislature. The Governor's budget is developed using the state agency reports described above.

Board Position:

| | | |
|----------|-----------|------------------------|
| _____ S | _____ NA | _____ NP |
| _____ SA | _____ O | _____ NAR |
| _____ N | _____ OUA | _____ <u>X</u> PENDING |

Department Director

Date

Selvi Stanislaus

3/23/07

THIS BILL

This bill would require the Legislature, on or before July 1, 2009, and every ten years thereafter, to review all of the tax expenditures in existence since January 1, 2008, and repeal any that fail to advance or serve a public purpose or policy.

This bill would also require, as of January 1, 2008, and thereafter, that any new legislative measure that creates a tax expenditure meet the following requirements:

- The measure may only provide for a single tax expenditure.
- The measure would need to include a factual statement of how the expenditure would advance or serve the public purpose or policy.

IMPLEMENTATION CONSIDERATIONS

The Franchise Tax Board (FTB) annually provides information to DOF regarding tax expenditures. Because this bill would not require a change in the information currently provided, it would not impact the department's programs, operations, or state income tax revenue.

LEGISLATIVE HISTORY

AB 168 (Ridley-Thomas, 2005/2006) would have required the Board of Equalization and FTB to provide the Legislature, DOF, and Legislative Analyst Office a report on tax expenditures with specific information. AB 168 was vetoed by Governor Schwarzenegger, stating "...DOF is already required to provide an annual report, and AB 168 would require information that may not be available due to confidentiality requirements."

AB 2106 and AB 990 (Ridley-Thomas, 2003/2004) would have required DOF to provide a report on tax expenditures to the Legislature. AB 2106 was vetoed by Governor Schwarzenegger. The veto message stated, "...it would be difficult for DOF to report some of the information required by AB 2106 because much of it is unavailable." AB 990 failed to pass out of the Legislature by the constitutional deadline."

SB 1379 (Stats. 1984, Ch. 268) changed the requirement that DOF submit a tax expenditure report from every two years, to annually.

AB 360 (Stats. 1971, Ch. 1762) requires DOF to prepare a tax expenditure report and submit to the state or local government every two years.

OTHER STATES' INFORMATION

The states reviewed include *Illinois, Massachusetts, Michigan, Minnesota, and New York*. These states were selected due to their similarities to California's economy, business entity types, and tax laws.

Illinois, Michigan, Massachusetts, and New York require a tax expenditure report to be submitted every year by the Governor of each state to the respective Legislature.

Minnesota requires the Commissioner of Revenue to prepare a tax expenditure budget report. The report contains the amount of tax revenue foregone for each tax expenditure, the legal authority for each tax expenditure, and the year in which each was enacted. The report is submitted to the Legislature by February 1 of each even-numbered year.

FISCAL IMPACT

This bill would not significantly impact the department's costs.

ECONOMIC IMPACT

This bill would not impact the state's income tax revenue.

LEGISLATIVE STAFF CONTACT

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